
HOUSE BILL 2198

State of Washington

57th Legislature

2001 Regular Session

By Representatives Schual-Berke, Morris, Santos, Kagi, Doumit, Ogden, McIntire and Darneille

Read first time 02/26/2001. Referred to Committee on Finance.

1 AN ACT Relating to studying Washington's tax structure; and
2 creating a new section.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 NEW SECTION. **Sec. 1.** (1) Washington's tax system is one of the
5 most unique systems in the nation. The state relies primarily on the
6 sales tax, the business and occupation (B&O) tax, and the property tax.

7 (a) The state relies most heavily on one of the highest sales taxes
8 in the nation. The sales tax is a large and efficient revenue
9 producer. It is relatively popular because it is paid in small
10 increments. Since the sales tax is based on consumption, however, the
11 tax is volatile and unstable during economic downturns and can cause
12 large budget deficits.

13 (b) Washington is the only state in the nation that levies a B&O
14 tax on gross income. Since the B&O tax is not based on profit, tax
15 collections are very stable. However, the B&O tax favors established,
16 profitable firms at the expense of start-up firms and firms with
17 low-profit margins.

18 (c) The property tax is the oldest revenue source in the state,
19 having been established before statehood. Property taxes are a very

1 stable source of revenue. While Washington's property taxes are only
2 slightly above average for the states, the tax is perceived as high by
3 the taxpayers. In addition, the tax is complex and the administrative
4 costs are high.

5 Washington's tax system has remained relatively unchanged since
6 1935. Since that time, the state has grown in population and emphasis
7 from a more agrarian society to a more industrial, technology-based
8 society. It is the intent of the legislature to study the current tax
9 system in the state of Washington to determine how well it functions
10 and how it can be changed to better serve the citizens of the state in
11 the twenty-first century.

12 (2) The department of revenue shall create a committee on taxation
13 to study the elasticity, equity, and adequacy of the state's tax
14 system. The committee on taxation shall consist of eleven members.
15 The committee shall include six academic scholars appointed by the
16 department of revenue from the fields of economics, taxation, business
17 administration, public administration, public policy, and other
18 relevant disciplines as determined by the department. In making the
19 appointments, the department shall consult with the majority and
20 minority leaders in the senate, the co-speakers in the house of
21 representatives, the chair of the ways and means committee in the
22 senate, and the co-chairs of the finance committee in the house of
23 representatives. The governor and the chairs of the majority and
24 minority caucuses in each house of the legislature shall each appoint
25 one member to the committee. These appointments may be legislative
26 members.

27 (3) The members of the committee shall elect a chair from among
28 their membership. Members of the committee shall serve without
29 compensation but shall be reimbursed for travel expenses under RCW
30 43.03.050 and 43.03.060.

31 (4) The purpose of the study is to determine how well the current
32 tax system functions and how it might be changed to better serve the
33 citizens of the state in the twenty-first century. In reviewing
34 options for changes to the tax system to better serve the citizens of
35 the state, the committee shall develop multiple alternatives to the
36 existing tax system. To the extent possible, the alternatives shall be
37 designed to increase the harmony between the tax system of this state
38 and the surrounding states, encourage commerce and business creation,
39 and encourage home ownership. The alternatives shall range from

1 incremental improvements in the current tax structure to complete
2 replacement of the tax structure. In conducting the study, the
3 committee shall examine the tax structures of other states and review
4 previous studies regarding tax reform in this state, including the
5 study conducted by the 1982 Tax Advisory Council and the study
6 conducted by Governor Gardner's Committee on Washington's Financial
7 Future in 1988. In developing alternatives, the committee shall be
8 guided by the following criteria:

9 (a) Administrative simplicity: A tax system should neither be
10 excessively expensive for the state to administer nor impose undue
11 recordkeeping and reporting requirements on taxpayers.

12 (b) Economic neutrality: A tax system should be designed to
13 minimize distortions in economic decision making.

14 (c) Fairness: The burden of taxation should be equitably spread
15 among the citizens.

16 (d) Stability: The revenue of a tax system should not fluctuate
17 dramatically with the condition of the economy.

18 (e) Transparency: A tax system should be designed so that the
19 costs of government are clear to citizens.

20 (5) While the committee may consider all possibilities, most of the
21 alternatives presented by the committee to the legislature shall be
22 revenue neutral and contain no personal income tax.

23 (6) The committee shall solicit input from businesses, units of
24 local government, taxpayers, tax administrators, budget officials, and
25 other interest groups.

26 (7) The department of revenue shall provide staff to the committee
27 for the purpose of the study.

28 (8) The committee shall present a final report of the findings of
29 the study and the alternatives developed by the committee to the ways
30 and means committee in the senate and the finance committee in the
31 house of representatives by November 30, 2002.

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